

Recommendation BUY

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Target price	18,400
Closing price	16,150
Upside	13.9%

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Target price	19,000
Cut loss	13,500

Market data

Outstanding share ('000)	381,542
Mkt Cap (bil VND)	5,799
High of 52w	16,700
Avg Vol 10 days (share)	139,035
Foreign ownership	6.02%

Major shareholders

Vicem	79.69%
Thanachart Securities	1.46%
ITC	1.37%
Phatra Capital	1.35%

Price movement for 1 year



Company Overview

Ha Tien 1 is the leader of cement industry with 28% market share in the southern region and 11% market share of the total domestic market

THE LEADER OF CEMENT INDUSTRY

Investment Outlook

We recommend **BUY** for HT1 with a **target price for 2019 of VND 18,400/share** based on EV / EBITDA valuation method with the target multiplier of 5.5x. Our target price is equivalent to P/E fw 2019 = 10.8x (as compared to HT1's 2-year average P/E of 10.1x).

Business results forecast

BSC forecasts net revenue of HT1 in 2019 will reach VND 8,758 billion (+ 4.6% YoY) based on the following assumptions (1) total cement and clinker consumption is 7.58 million tons (+2.8 % YoY) and (2) the average selling price increases by 2%. EAT is estimated about 721 billion dong (+ 11.8% YoY), stronger than revenue thanks to reducing financial expense, equivalent to EPS of 1,702 dong/share, P/E fw = 9.5x.

Investment highlights (Refer to page 2 for more details)

(1) Demand for residential construction and public investment (especially in transport infrastructure projects) **continues to boost cement consumption. Ease industry competition thanks to strong export, especially to China.**

(2) Being the leader in the southern market with 28% market share (equivalent to 11% market share of the whole country) and strong brand, HT1 is able to partly transfer a rise input price to selling price.

(3) The balance of foreign currency loans is declining and estimated to be fully repaid in 2021, reducing interest expense and exchange rate risks.

Investment risks

- **Competitive risk:** We assess that the level of competition has eased thanks to increasing export volume, especially to China. However, unpredictable patterns of the Chinese market may pose a risk of a sudden decline in export demand, causing difficulties for the whole industry due to oversupply in the domestic market.

- **Coal price risk:** An estimated 1-percent change in coal price could reduce the gross profit margin by 0.2%.

- **Exchange rate risk:** The estimated 1-percent increase in the exchange rate of EUR/VND and USD/VND may cause unrealized exchange loss of VND 3 billion.

Business update

(1) Business results 2018: Revenue 2018 reached 8,376 billion VND (+2% YoY), cement consumption was 6.5 million tons (+1.6% YoY) and clinker volume was 550 thousand tons (+28.7% YoY). EAT was 645 billion, strongly up by 32.3% YoY.

(2) Business plan 2019: Ha Tien 1 projects to consume 7.2 million tons of cement (+ 5.61% YoY) and 650 thousand tons of clinker (+ 17.61% YoY) in 2019; net revenue will reach VND 8,927 billion (+6.58% YoY), EBT is VND 917 billion (+13.77% YoY).

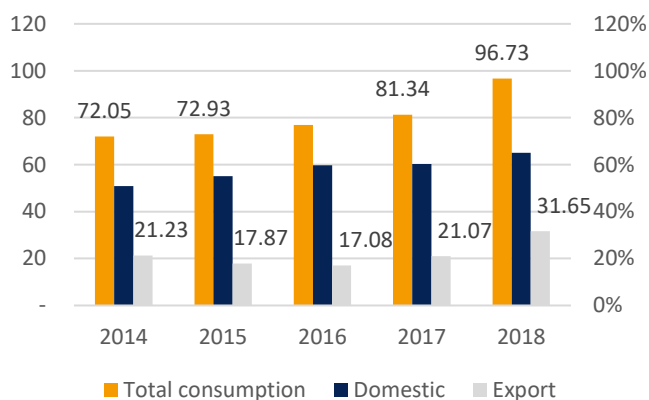
Other reports [Link](#)

Investment Outlooks:

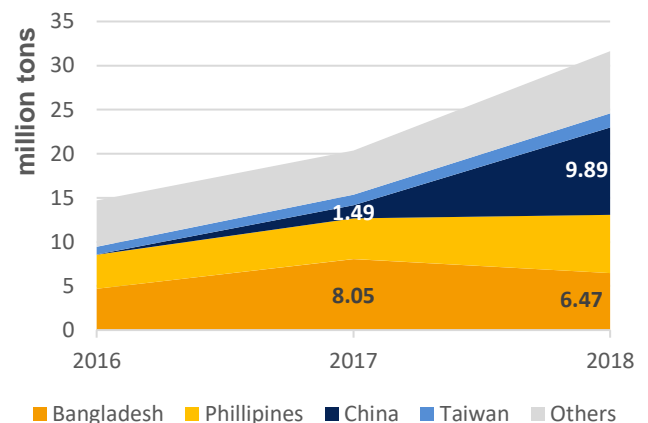
(1) Demand for residential construction and public investment (especially in transport infrastructure projects) continues to boost cement consumption. Ease industry competition thanks to strong export, especially to China

The state budget's plan for investment and development spending in 2019 is 429,300 billion VND (+ 2.6%), of which the investment and development expenditure of the Ministry of Transportation was 41,171 billion VND. Some key infrastructure projects that are or will be implemented in the near future are: North-South expressway (Cau Gie - Ninh Binh; Cam Lo - La Son, My Thuan 2 Bridge with total investment of VND 16,500 billion); Van Don - Mong Cai highway; Nhon Trach - Ho Chi Minh City road Phase 1(with total investment of VND 5,300 billion); Cat Lai Bridge (with total investment of 7,200 billion), and so on.

Consumption 2014-2018
 ((Unit: million tons)



Cement & clinker export market



Source: Vietnam Cement Association; GSO

In 2018, the whole industry consumption volume reached 93.22 million tons (+20.8% YoY), of which domestic consumption absorbed 65.08 million tons (+10.3% YoY) and export was 31.65 million tons (+50.2% YoY). China surprisingly surpassed Bangladesh to be the largest export market of Vietnamese cement and clinker with 9.89 million tons (6.6 times higher than the previous year). Cement exports to China have increased rapidly since 2017, as China implemented the campaign to limit heavy industry production (such as steel and cement) in order to tackle with air pollution problem. According to DBS estimates, this campaign could reduce clinker production in China by 2%, equivalent to 45-47 million tons (4.5 times higher than its volume imported from Vietnam).

(2) Ha Tien 1 is the leader in the southern market with 28% market share, equivalent to 11% of the total domestic consumption. Ha Tien 1 targets to southern provinces, acquiring large market share that is far more than those of rivals such as Insee (formerly Holcim) and Fico Tay Ninh. With a large market share and a strong brand name, we assess that HT1 can actively increase selling prices to partly offset the increase in raw material costs.

(3) The balance of foreign currency loans is declining and estimated to be fully repaid in 2021 to help reduce interest expense and exchange rate risks. According to our estimates, as of the end of 2018, HT1's foreign currency loan balance was about 23.5 million EUR and 6.5 million USD. Those loans were to invest in factories before 2010, and were guaranteed by the Ministry of Finance. The reference interest rates for those loans are EURIBOR 6M and LIBOR 6M, in which EURIBOR interest rates fall below 0 since 2015, and continue to remain low, helping HT1 to benefit from low-cost loans.

Business update

(1) Business results in 2018

- Revenue 2018 reached VND 8,376 billion (+ 2% YoY), cement consumption was 6.5 million tons (+ 1.6% YoY), and clinker volume was 550 thousand tons (+ 28.7% YoY).
- Gross profit margin improved from 16.4% to 16.8% in the context of coal price (30% of COGS) increased by 15% thanks to increasing selling price (about 40,000 VND / ton, corresponding to + 3%) and declining outsourcing volume at Ha Long grinding station
- Net financial expense in 2018 -39% YoY thanks to interest expense reduction of 11.5% YoY (average loan balance in 2018 -13.4% YoY) and exchange rate loss -92.8% YoY (2018, VND/EUR exchange rate - 3.2% YTD while in the same period of 2017 +14.5% YTD) helped NPAT grow strongly by 32.3% YoY.

(2) Business plan in 2019

- Ha Tien 1 projects to consume 7.2 million tons of cement (+ 5.61% YoY) and 650 thousand tons of clinker (+ 17.61% YoY). The planned net revenue is VND 8,927 billion (+ 6.58% YoY), EBT of VND 917 billion (+ 13.77% YoY).
- The plan to relocate Thu Duc grinding station: (i) research to invest in a new cement production line for substitution (ii) complete the demolition and relocation process, then transfer land using purpose.

Business results forecast

BSC forecasts revenue in 2019 will reach 8,758 billion (+ 4.6% YoY) based on assumptions:

- (1) Cement and clinker consumption volume will be 7.58 million tons (+ 2.8% YoY)
- (2) The average selling price in 2019 will rise by 2% over the same period.

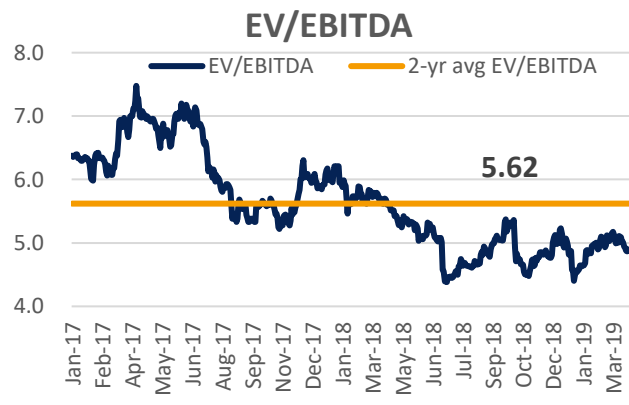
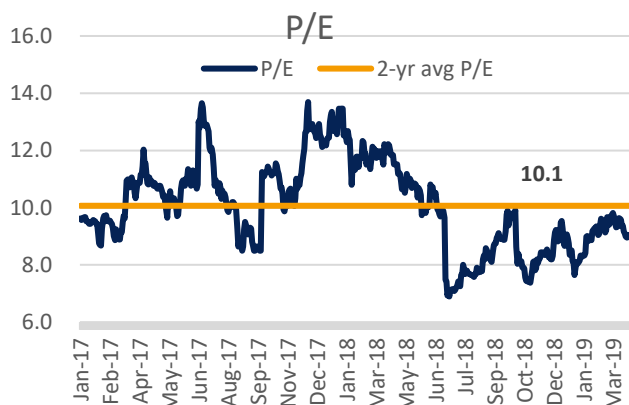
As analyzed above, we highly appreciate HT1's price increase ability to partly offset the increase in coal and electricity prices in the year. In fact, HT1 has increased the selling price of products by 30,000 dong/ton (including VAT) (equivalent to 2-2.5%) since March 20, 2019.

In terms of profit after tax, our forecast for 2019 is 721 billion (+ 11.8% YoY), EPS = 1,702 VND / share, P/E fw = 9.5x with cost assumptions:

- (1) Coal price (30% of COGS) + 5% YoY and electricity (10-15% of COGS) + 8% YoY cause gross profit margin to decline from 16.8% to 16.1%, EBIT + 0.9%
- (2) Principal repayment of VND 800-900 billion (45-50% of long-term loan balance on December 31, 2018). VND/EUR and VND/USD exchange rate increase by 1%.

Valuation

We use the EV/EBITDA valuation method to pricing HT1. Our target multiple is 5.5x, equivalent to HT1's 2-year average EV/EBITDA of 5.6x. Our target price is equivalent to P/E fw 2019 = 10.8x



HT1 - Ha Tien 1 Cement JSC

Financial analysis

04/04/2019

BSC

	2014	2015	2016	2017	2018
Net revenue	6,758	7,608	8,237	8,209	8,376
Gross profit	1,334	1,674	1,623	1,339	1,403
Financial revenue	292	99	79	18	32
Financial expenses	(746)	(464)	(378)	(477)	(314)
Interest	(523)	(417)	(347)	(312)	(276)
Selling expenses	(321)	(86)	(138)	(123)	(135)
General and administrati	(164)	(282)	(213)	(192)	(188)
Operating profit/loss	394	942	975	564	798
Other loss/profit	1	9	44	32	8
Profit before tax	396	950	1,019	596	806
Profit after tax	305	739	809	471	645
Minority interest	-	-	-	(2)	0
Parent company profit	305	739	809	473	645

EPS

Current assets	1,726	1,364	1,760	1,704	1,931
Money and short-term in	255	353	493	347	787
Short-term receivables	497	387	455	511	462
Inventories	959	610	797	827	654
Other current assets	15	14	14	18	28
Long-term assets	10,936	10,556	10,020	9,373	8,705
Long-term receivables	-	11	12	11	12
Fix assets	10,699	9,248	8,627	8,149	7,479
Long-term uncompleted	-	1,013	1,116	956	990
Other long-term assets	181	243	212	217	199
Total assets	12,662	11,919	11,780	11,076	10,636
Liabilities	8,948	7,493	6,586	5,902	5,455
Short-term liabilities	3,851	3,070	3,065	3,260	3,729
Short-term Debt	2,110	1,542	1,634	1,984	2,120
Long-term liabilities	5,097	4,423	3,521	2,642	1,727
Long-term Debt	5,097	4,417	3,515	2,635	1,719
Equity	3,714	4,426	5,195	5,174	5,181
Contributed capital	3,180	3,180	3,816	3,816	3,816
Undistributed profits	316	969	1,071	908	767
Total resources	12,662	11,919	11,780	11,076	10,636

% yoy sale		44%	41%	29%	24%
Gross profit margin	19.7%	22.0%	19.7%	16.3%	16.8%
Interest/Net revenue	7.7%	5.5%	4.2%	3.8%	3.3%
Selling expenses/Net rev	4.8%	1.1%	1.7%	1.5%	1.6%
General and administrati	2.4%	3.7%	2.6%	2.3%	2.2%
Net profit margin	4.5%	9.7%	9.8%	5.7%	7.7%

- Revenue 2018 + 2% YoY thanks to consumption volume: cement 6.5 million tons (+ 1.6% YoY), clinker 550 thousand tons (+ 28.7% YoY) and selling price increased about 50 thousand/ton.

- Net financial expense in 2018 -39% YoY thanks to interest expense and exchange rate losses decreased by 11.5% YoY and 92.8% YoY respectively

- Proportion of selling and administration expenses was kept stable at 3.9% of revenue, helping EBIT + 5.1% YoY.

- Net profit grew strongly by 32.3% YoY.

- Long-term assets accounted for 85% of total assets, mainly in the form of tangible fixed assets (factories, grinding stations, machinery and equipment).

- Long-term uncompleted assets accounted for 9.3% of total assets, which is an investment in Phu Huu BOT project, projects in Binh Phuoc and Kien Luong.

- Long-term debt has about 38% of loans in foreign currency (EUR and USD) guaranteed by the Ministry of Finance, interest rate in 2017 is under 1% due to EURIBOR <0% interest rate. According to the repayment schedule, HT1 will settle all foreign currency debts in 2021.

- Gross profit margin improved from 16.4% to 16.8% in the context of coal price (30% of COGS) increased by 15% thanks to increasing selling price and declining outsourcing volume at Ha Long grinding station

FINANCIAL RATIO

	2014	2015	2016	2017	2018
1. Liquidity					
Current ratio	0.45	0.44	0.57	0.52	0.52
Quick ratio	0.20	0.24	0.31	0.26	0.33
2. Capital structure					
Current assets/Total as	0.14	0.11	0.15	0.15	0.18
LT assets/Total assets	0.86	0.89	0.85	0.85	0.82
Liabilities/Total assets	0.71	0.63	0.56	0.53	0.51
Liabilities/Equity	2.41	1.69	1.27	1.14	1.05
ST Liabilities/Total asse	0.30	0.26	0.26	0.29	0.35
LT liabilities/Total asse	0.40	0.37	0.30	0.24	0.16
3. Operational capacity					
Inventory turnover	5.6	7.6	9.4	8.5	9.4
Receivables turnover	16.9	20.5	22.6	19.7	22.0
Accounts payable turnc	5.2	5.8	7.6	8.3	7.2
Days' sales in inventory	65.4	48.3	38.9	43.1	38.8
Days sales in receivabl	21.6	17.8	16.1	18.5	16.6
Days payable outstand	70.7	63.1	47.9	43.8	50.9
CCC	16.3	3.0	7.1	17.9	4.4
4. Profitability					
Net profit margin	4.5%	9.7%	9.8%	5.7%	7.7%
ROE	8.8%	18.1%	16.8%	9.1%	12.5%
ROA	2.4%	6.0%	6.8%	4.1%	5.9%
Net operating profit ma	5.8%	12.4%	11.8%	6.9%	9.5%
5. Dupont analysis (5 components)					
Financial leverage	3.73	3.02	2.46	2.20	2.10
Assets turnover	0.52	0.62	0.70	0.72	0.77
EBIT margin	0.14	0.18	0.17	0.11	0.13
Interest burden	0.43	0.70	0.75	0.66	0.75
Tax burden	0.77	0.78	0.79	0.79	0.80
6. Valuation					
PE		5.1	6.6	11.2	9.9
PB		0.9	0.9	0.9	0.9
EPS		2,323	2,120	1,278	1,690
BVPS		13,920	13,613	13,577	13,308
7. Growth (%)					
Total assets	-3%	-6%	-1%	-6%	-4%
Debt	16.2%	19.2%	17.4%	-0.4%	0.1%
Net revenue	6.1%	12.6%	8.3%	-0.3%	2.0%
Gross profit	-6.7%	25.5%	-3.0%	-17.5%	4.8%
Net income		142.3%	9.5%	-41.8%	37.0%
EPS					

- Quick ratio improved while current ratio was equivalent to 2017.

- Proportion of long-term assets (grinding stations and machinery and equipment accounted for over 80% of total assets).

- Debt ratio gradually decreased thanks to repaying long-term debt, the proportion was quite balanced to equity.

- The inventory and receivables turnover increased, the cash conversion cycle sharply decreased from 18 days to 4 days.

- Profitability increased significantly thanks to efficient control of costs and favorable exchange rate movements in 2018.

Technical highlights:

- Current Trend: Short-term uptrend
- MACD trend: Negative divergence, MACD started crossing up the signal line..
- RSI: Neutral zone, RSI broke above Bollinger channel..
- MAs: MA20 is converging with MA50 and both of them are above MA200.

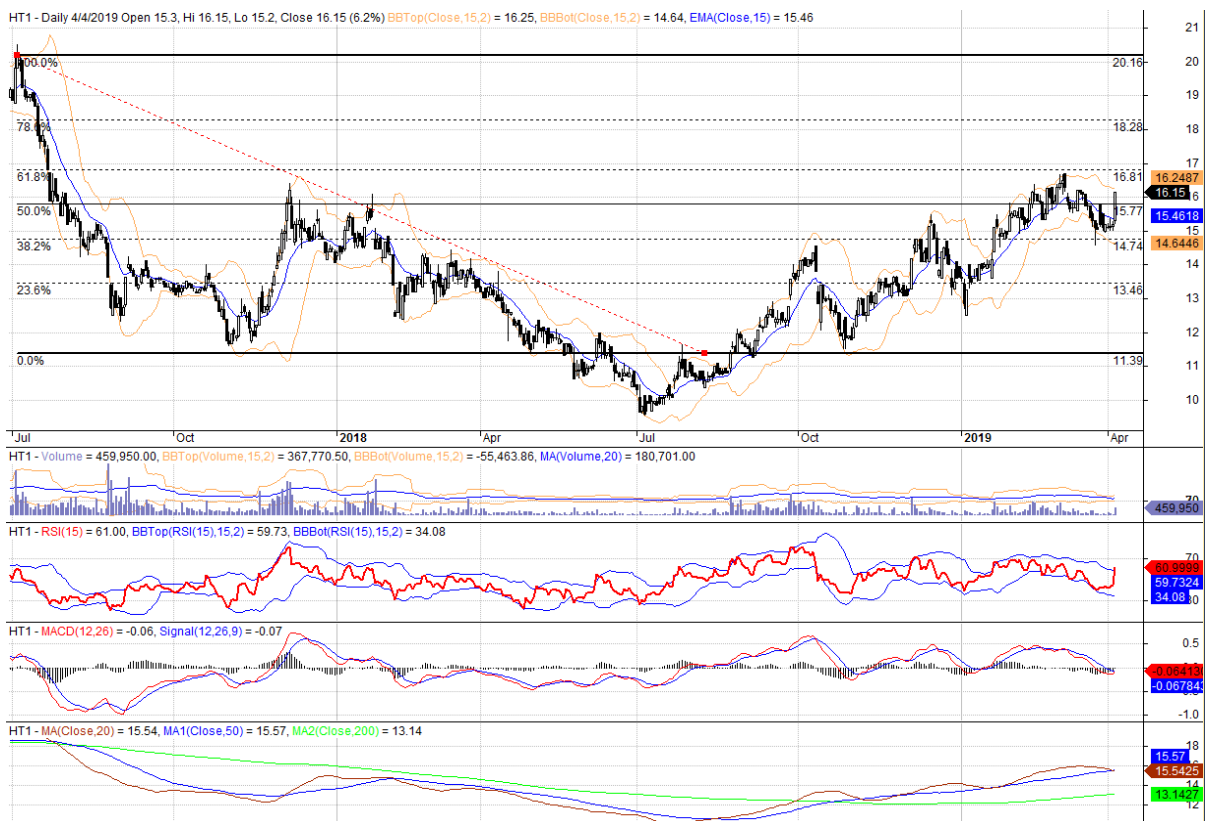
Comment:

HT1 has established an upward trend from the support level 15. The liquidity in today's session surged and created a strong rebound trend. The MACD and RSI indicators both support the upward trend when both of these indicators surged. The movement of 3 MA lines showed that the stock is in short-term consolidation status. Signal for an uptrend has occurred as MA20 reversed to the uptrend. These above factors show that a strong short-term rebound trend is being formed. HT1 will re-test the price level of 18-19 in the next few sessions.

Recommendation:

Investors can buy at the price range of 15-16 and take profit at the price level 19. Cut loss if the stock loses the price threshold of 13.5.

Chart



Disclosure

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